

CITY OF CRESTON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 2016

CITY OF CRESTON

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CITY OF CRESTON
OFFICIALS
June 30, 2016

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Warren Woods.....	Mayor.	(Ended 12-31-15)Jan 2016
Gary Lybarger.	Mayor.	(Started 1-1-16)Jan 2020
Nancy Loudon.	Council Member.	(Ended 12-31-15)Jan 2016
Randy White.	Council Member.	(Resigned 6-1-16)Jan 2018
Marsha Wilson.....	Council Member.	Jan 2020
Dave Koets.....	Council Member.	Jan 2018
Gary Lybarger.	Council Member.	(Ended 12-31-15)Jan 2018
Rich Madison.....	Council Member.	Jan 2020
Gabe Carroll.....	Council Member.	Jan 2018
Steve Wintermute.....	Council Member.	(Started 1-1-16)Jan 2020
Christine Nielsen.	Council Member.	(Started 1-19-16)Jan 2018
Michael Taylor.....	City Administrator.	Indefinite
Lisa Williamson.....	City Clerk.	Jan 2017
Todd Nielsen.	Co-City Attorney.....	Jan 2017
Marion James.....	Co-City Attorney.....	Jan 2017

City of Creston



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Creston, Iowa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Creston, Iowa as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Creston's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2015 (which is not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the seven years ended June 30, 2013 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 12 and 38 through 45 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2016 on our consideration of the City of Creston's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Creston's internal control over financial reporting and compliance.

Martens & Company, CPA, LLP

West Des Moines, Iowa
September 20, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Creston provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- Government Activities total receipts decreased by approximately \$15,000 from the previous fiscal year. Tax incremental financing, other general receipts and property tax increased from the previous fiscal year. Charges for service and other city tax decreased when compared to fiscal year 2015.
- Government Activities total expenditures decreased by approximately \$977,000. Public Safety and Capital Project expenditures increased compared to fiscal year 2015. Public Works, Culture and Recreation, and General Government expenditures decreased from the previous fiscal year. Public Safety expenditures increased by approximately \$17,000, Public Works decreased by approximately \$159,000, Culture and Recreation decreased by approximately \$105,000, and General Government decreased by approximately \$657,000 compared to fiscal year 2015.
- During fiscal year 2016, the City's total cash basis net position increased by 13.7% or approximately \$1,187,600. Of this amount, the cash basis net position of the Governmental Activities increased approximately \$1,000,000 and the cash basis net position of the business type activities increased approximately \$188,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consist of a cash basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system. These activities are financed primarily by user charges.
- The Component Unit includes the Creston City Water Works, which accounts for the activities of the Water Works.

Fund Financial Statements

The City has three kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide separate information for the Sewer Fund, considered to be a major fund of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

3) Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources are not available to support the City's own programs. The Fiduciary Fund consists of the Agency, Animal Shelter Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, by approximately \$1,000,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for services	\$ 1,019	\$ 1,044
Operating grants contributions and restricted interest	1,291	1,395
Capital grants contributions and restricted interest	154	35
General receipts:		
Property tax	2,683	2,625
Tax incremental financing collections	697	685
Other city tax	1,040	1,179
Unrestricted interest on investments	61	50
Special assessments	7	6
Other general receipts	620	568
Total receipts	<u>7,572</u>	<u>7,587</u>
Disbursements:		
Public safety	1,606	1,589
Public works	1,675	1,834
Culture and recreation	697	802
Community and economic development	32	40
General government	1,860	2,517
Debt service	908	1,059
Capital projects	105	19
Total disbursements	<u>6,883</u>	<u>7,860</u>
Change in cash basis net position before transfers	689	(273)
Transfers, net	<u>311</u>	<u>546</u>
Change in cash basis net position	1,000	273
Cash basis net position beginning of year	<u>7,004</u>	<u>6,731</u>
Cash basis net position end of year	<u>\$ 8,004</u>	<u>\$ 7,004</u>

The City's total receipts for governmental activities decreased by 0.2% or approximately \$15,000 from fiscal year 2015. Disbursements for fiscal year 2016 decreased by 12% or approximately \$977,000 over fiscal year 2015. Starting fiscal year 2017, the City is in a better position than when it started fiscal year 2016 with a beginning cash balance of approximately \$8,004,000 vs. \$7,004,000.

Property tax receipts increased for fiscal 2016, by 2% or approximately \$50,000 due to increased assessed valuations. The property tax levy rate for fiscal year 2016 was decreased by \$0.00027 per thousand.

Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by approximately an additional \$358,000 next year or 13.34%.

The cost of all governmental activities this year was approximately \$6.883 million compared to \$7.860 million last year. However, as shown in the Statement of Activities and Net Position on pages 14-15, the amount taxpayers ultimately financed for these activities was approximately \$4.419 million because some of the cost was paid by those directly benefitted from the programs (approximately \$1.019 million) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1.446 million). The City paid for the remaining “public benefit” portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City’s governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2016 from approximately \$2.474 million to approximately \$2.465 million, principally due to decreased operating grants and contributions.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for services	\$ 1,354	\$ 1,345
Miscellaneous receipts	235	52
Total receipts	<u>1,589</u>	<u>1,397</u>
Disbursements:		
Personal services	332	345
Services and commodities	287	310
Capital outlay	<u>470</u>	<u>243</u>
Total disbursements	<u>1,089</u>	<u>898</u>
Change in cash basis net position before transfers	500	499
Transfers, net	<u>(311)</u>	<u>(546)</u>
Change in cash basis net position	189	(47)
Cash basis net position beginning of year	<u>1,655</u>	<u>1,702</u>
Cash basis net position end of year	<u>\$ 1,844</u>	<u>\$ 1,655</u>

Total business type activity receipts increased approximately 14% or approximately \$192,000. Business type activity disbursements increased approximately 21% or approximately \$191,000. The increase in receipts was primarily due to federal grant receipts of approximately \$277,000. The increase in disbursements was primarily due to increased capital outlay for the North Side Sanitary Sewer Project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Creston completed the year, its governmental funds reported a combined fund balance of approximately \$8,004,000, an increase of approximately \$1,000,000 above last year’s total of approximately \$7,004,000. The following are the major reasons for the changes in cash balances from the prior year for the City’s major funds.

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance in the General Fund was approximately \$1,385,000, an increase of approximately \$239,000. The City continues to maintain a very strong General Fund balance, which is approximately 38% of General Fund receipts. The Fund increased partially due to reduced expenditures related to grants.
- The Special Revenue, Road Use Tax Fund ending cash balance was approximately \$614,000, an increase of approximately \$260,000. The City continues to invest all of the Road Use Tax received throughout the year in maintaining and improving the streets. The Fund increased partially due to the State of Iowa \$0.10 fuel tax increase.
- The Special Revenue, Employee Benefits Fund is a Special Revenue Fund that accounts for revenues received and expenditures paid in support of employee benefits. The types of revenues received are property taxes assessed for the employer contributions for health insurance, FICA, IPERS, and unemployment benefits, in addition to any third party health insurance reimbursement received for major medical claims exceeding the stop loss level established with a third party administrator. Expenditures from the fund include premiums and medical claims paid on behalf of covered employees and the employer contributions for FICA, IPERS, and unemployment benefits. The fund showed a net increase of approximately \$146,000 with an ending cash balance of approximately \$480,000.
- The Special Revenue, Urban Renewal Tax Increment Fund was established to account for major urban renewal projects within the City. At the end of the fiscal year, the cash balance was approximately \$912,000, an increase of approximately \$34,000 from the previous year. The increase was the result of decreased transfers out of urban renewal tax increment financing for the Lincoln School Housing Trust. These proceeds are generally used to redeem bonds and interest on existing outstanding bonds.
- The Special Revenue, Local Option Sales Tax Fund increased approximately \$344,000 to approximately \$3,728,000. This increase was primarily attributable to the local option sales tax receipts exceeding the transfers to other funds for the use of the local option sales tax.
- The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and long-term debt. The City transferred approximately \$908,000 from other funds to make payments for these obligations. The fund increased due to a partial advance funding of 2016 bond issues to be received in FY 2017.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance increased by approximately \$188,000 during the fiscal year. The Fund increased due to increased federal grant receipts.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following the required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures, ie; a required public notice followed by a public hearing. Over the course of the year, the City amended its operating budget once. The amendment was approved on May 3, 2016 to provide for additional disbursements in certain city departments of approximately \$279,000. The majority of the increase in disbursements was due to increased Business Type Activity disbursements of \$470,300. The amendment also included a projected increase in revenues of \$560,600. The key items increasing budgeted revenues were: intergovernmental and miscellaneous fees.

DEBT ADMINISTRATION

At year-end, the City had \$3,543,900 in bonds and other long-term debt compared to \$4,347,000 in fiscal year 2015. See below for a side by side comparison of the outstanding debt obligations for fiscal years 2016 and 2015.

	Outstanding Debt at Year-End	
	2016	June 30 2015
General Obligation Capital Loan Note, Series 2010	\$ 815,000	\$ 915,000
General Obligation Capital Loan Note, Series 2012A	965,000	1,160,000
General Obligation Refunding Capital Loan Notes, Series 2012B	785,000	1,040,000
General Obligation Urban Renewal, Series 2016B	10,900	-
State Revolving Funds Loans	<u>968,000</u>	<u>1,232,000</u>
Total	<u>\$3,543,900</u>	<u>\$4,347,000</u>

The City's general obligation bond rating continues to be strong. Moody's Investor Services assigned its "A1" rating to the Series 2016A General Obligation Refunding Capital Loan Note and Series 2016B General Obligation Urban Renewal Bonds. The outlook is stable. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to five percent (5%) of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation of \$2,575,900 is well below the City's legal debt limit of \$15,899,109.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2017 fiscal year budget, tax rates, and fees that will be charged for various City activities. In addition, capital equipment needs, fuel costs, and the costs of employee benefits are primary concerns in setting a budget.

These factors all contributed when adopting the fiscal year 2017 budget. The total budgeted revenue for fiscal year 2017 is \$13,260,249. This revenue includes Governmental Activities and Business Type Activities, which includes the Sewer and City Water Works departments. Budgeted expenditures for fiscal year 2017 is \$13,705,373. \$9,640,164 is budgeted for Governmental activity expenditures and \$4,065,209 is for Business Type expenditures. Steps implemented by the City, including the careful utilization of Local Option Sales Tax receipts, increasing certain fees, transferring costs across funds, and reducing the costs of the delivery of services allowed the City to maintain positive fund balances for the fiscal year 2017 budget. The property tax rate of \$13.69612 for the fiscal year ending June 30, 2017, is a slight decrease of the fiscal year 2016 rate.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michael A. Taylor, Creston City Administrator, 116 West Adams Street, P.O. Box 449, Creston, Iowa 50801.

Basic Financial Statements

CITY OF CRESTON

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,606,192	\$ 165,557	\$ 85,520	\$ -
Public works	1,675,071	751,791	1,059,738	76,101
Culture and recreation	696,820	88,430	137,396	-
Community and economic development	31,617	-	-	-
General government	1,860,501	13,343	8,684	-
Debt service	908,363	-	-	-
Capital projects	104,764	-	-	78,143
Total governmental activities	<u>6,883,328</u>	<u>1,019,121</u>	<u>1,291,338</u>	<u>154,244</u>
Business type activities:				
Sewer	<u>1,088,766</u>	<u>1,354,371</u>	-	<u>227,136</u>
Total business type activities	<u>1,088,766</u>	<u>1,354,371</u>	-	<u>227,136</u>
Total Primary Government	<u>\$ 7,972,094</u>	<u>\$ 2,373,492</u>	<u>\$ 1,291,338</u>	<u>\$ 381,380</u>
Component Unit:				
Water Works	<u>\$ 2,509,339</u>	<u>\$ 2,506,226</u>	<u>\$ -</u>	<u>\$ -</u>
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Unrestricted interest on investments				
Note proceeds				
Miscellaneous				
Sale of capital assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				

Total cash basis net position

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Governmental Activities	Business Type Activities	Total	Water Works
\$ (1,355,115)	\$ -	\$ (1,355,115)	\$ -
212,559	-	212,559	-
(470,994)	-	(470,994)	-
(31,617)	-	(31,617)	-
(1,838,474)	-	(1,838,474)	-
(908,363)	-	(908,363)	-
(26,621)	-	(26,621)	-
(4,418,625)	-	(4,418,625)	-
-	492,741	492,741	-
-	492,741	492,741	-
(4,418,625)	492,741	(3,925,884)	-
			\$ (3,113)
2,690,437	-	2,690,437	-
697,428	-	697,428	-
889,906	-	889,906	-
149,660	-	149,660	-
61,248	-	61,248	13,104
10,900	-	10,900	-
601,232	6,391	607,623	35,818
6,315	-	6,315	-
311,085	(311,085)	-	-
5,418,211	(304,694)	5,113,517	48,922
999,586	188,047	1,187,633	45,809
7,004,086	1,655,593	8,659,679	1,567,167
\$ 8,003,672	\$ 1,843,640	\$ 9,847,312	\$ 1,612,976
\$ 265,036	\$ -	\$ 265,036	\$ -
613,883	-	613,883	-
911,640	-	911,640	-
48,303	-	48,303	-
4,780,242	1,294,425	6,074,667	212,144
1,384,568	549,215	1,933,783	1,400,832
\$ 8,003,672	\$ 1,843,640	\$ 9,847,312	\$ 1,612,976

CITY OF CRESTON

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2016

	Special Revenue			
	General	Road Use Tax	Employee Benefit Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$1,992,386	\$ 61,715	\$ 407,948	\$ -
Tax increment financing	-	-	-	697,428
Other city tax	149,660	-	-	-
Licenses and permits	44,719	-	-	-
Uses of money and property	97,907	-	-	-
Intergovernmental	258,298	968,120	197,263	-
Charges for service	855,825	9,339	-	-
Special assessments	6,954	-	-	-
Miscellaneous	232,082	10,266	264,530	-
Total receipts	3,637,831	1,049,440	869,741	697,428
Disbursements:				
Operating:				
Public safety	1,387,552	-	-	-
Public works	885,413	789,658	-	-
Culture and recreation	505,186	-	-	-
Community and economic development	31,617	-	-	-
General government	876,697	-	983,804	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	3,686,465	789,658	983,804	-
Excess (deficiency) of receipts over (under) disbursements	(48,634)	259,782	(114,063)	697,428
Other financing sources (uses):				
Sale of capital assets	6,315	-	-	-
Bond proceeds	-	-	-	-
Transfers in	287,546	514	260,416	21,027
Transfers out	(6,014)	-	-	(684,838)
Total other financing sources (uses)	287,847	514	260,416	(663,811)
Change in cash balances	239,213	260,296	146,353	33,617
Cash balances beginning of year	1,145,355	353,587	333,781	878,023
Cash balances end of year	\$1,384,568	\$ 613,883	\$ 480,134	\$ 911,640
Cash Basis Fund Balances				
Nonspendable:				
Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -
Cemetery perpetual decoration	-	-	-	-
Restricted for:				
Urban renewal purposes	-	-	-	911,640
Debt service	-	-	-	-
Streets	-	613,883	-	-
Other purposes	-	-	480,134	-
Committed				
Community Center	16,185	-	-	-
Unassigned	1,368,383	-	-	-
Total cash basis fund balances	\$1,384,568	\$ 613,883	\$ 480,134	\$ 911,640

See notes to financial statements.

Local Option Sales Tax	Debt Service	Nonmajor	Total
\$ -	\$ -	\$ 221,434	\$ 2,683,483
-	-	-	697,428
889,906	-	-	1,039,566
-	-	-	44,719
-	-	4,625	102,532
-	-	82,568	1,506,249
-	-	-	865,164
-	-	-	6,954
-	-	101,641	608,519
889,906	-	410,268	7,554,614
-	-	218,640	1,606,192
-	-	-	1,675,071
-	-	191,634	696,820
-	-	-	31,617
-	-	-	1,860,501
-	908,363	-	908,363
-	-	104,764	104,764
-	908,363	515,038	6,883,328
889,906	(908,363)	(104,770)	671,286
-	-	-	6,315
-	10,900	-	10,900
-	908,363	70,177	1,548,043
(546,106)	-	-	(1,236,958)
(546,106)	919,263	70,177	328,300
343,800	10,900	(34,593)	999,586
3,383,791	37,403	872,146	7,004,086
\$ 3,727,591	\$ 48,303	\$ 837,553	\$ 8,003,672
\$ -	\$ -	\$ 241,423	\$ 241,423
-	-	23,613	23,613
-	-	-	911,640
-	48,303	-	48,303
-	-	-	613,883
3,727,591	-	572,517	4,780,242
-	-	-	16,185
-	-	-	1,368,383
\$ 3,727,591	\$ 48,303	\$ 837,553	\$ 8,003,672

CITY OF CRESTON

Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Proprietary Fund

As of and for the year ended June 30, 2016

	<u>Enterprise</u> <u>Sewer</u>
Operating receipts:	
Charges for service	\$ 1,354,371
Total operating receipts	<u>1,354,371</u>
Operating disbursements:	
Business type activities:	<u>619,118</u>
Total operating disbursements	<u>619,118</u>
Excess of operating receipts over operating disbursements	<u>735,253</u>
Non-operating receipts (disbursements):	
Intergovernmental	227,136
Capital projects and equipment	(469,648)
Miscellaneous	6,391
Net non-operating receipts (disbursements)	<u>(236,121)</u>
Excess of receipts over disbursements	<u>499,132</u>
Other financing sources (uses):	
Transfers in	206,359
Transfers (out)	(517,444)
Total other financing (uses)	<u>(311,085)</u>
Change in cash balances	188,047
Cash balances beginning of year	<u>1,655,593</u>
Cash balances end of year	<u>\$ 1,843,640</u>
Cash Basis Fund Balances	
Restricted for capital replacement	\$ 988,977
Restricted for storm water	305,448
Unrestricted	<u>549,215</u>
Total cash basis fund balances	<u>\$ 1,843,640</u>

See notes to financial statements.

CITY OF CRESTON

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Fiduciary Fund

Year ended June 30, 2016

	<u>Creston Animal Rescue Effort</u>
Additions:	\$ 16,127
Deductions:	<u>25,975</u>
Change in cash balance	(9,848)
Cash balance beginning of year	<u>47,738</u>
Cash balance end of year	<u><u>\$ 37,890</u></u>

See notes to financial statements.

CITY OF CRESTON

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Creston, Iowa is a political subdivision of the State of Iowa located in Union County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Creston has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Creston (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizens of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions:

Union County Assessors Conference Board, Union County Emergency Management Commission, Union County Solid Waste Management Commission, Union County Development Association Public Funding Council, and ATURA (Adams, Taylor, Union, Ringgold, Adair), Iowa Community Trust Governmental Health and Related Benefits Program.

Discretely Presented Component Unit

The Creston City Water Works is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Water Works is governed by a five-member board appointed by the City Council and Water Works' operating budget is subject to the approval of the City Council.

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefit Fund is used to account for tax revenue for the use of payments for employee benefits.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for the revenues from the state and local option sales tax and expenditure of those funds for the specific purpose as set forth in the referendum.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional fund:

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. The City's fiduciary funds consist of:

Creston Animal Rescue Effort - An agency fund utilized to account for the funds of the animal shelter, a separate not for profit entity.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting - Continued

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts the Council has legally limited for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Investments

The City's deposits at June 30, 2016, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(2) Cash and Investments - Continued

The City's investments are normally categorized to give an indication of the level of risk assumed by the City at year end. However, at June 30, 2016, the City had no investments subject to risk categorization.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Long Term Debt

Annual debt service requirements to maturity for general obligation bonds and notes and other debts are as follows:

Year Ending June 30,	General Obligation Capital Loan Notes	Other Debt	Total
2017	\$ 560,000	\$ 276,000	\$ 836,000
2018	565,000	104,000	669,000
2019	570,000	45,000	615,000
2020	250,900	47,000	297,900
2021	245,000	48,000	293,000
2022-2026	385,000	267,000	652,000
2027-2031	-	181,000	181,000
	<u>\$ 2,575,900</u>	<u>\$ 968,000</u>	<u>\$ 3,543,900</u>

Interest			
Year Ending June 30,	General Obligation Capital Loan Notes	Other Debt	Total
2017	\$ 55,803	\$ 25,377	\$ 81,180
2018	46,563	20,010	66,573
2019	36,460	17,640	54,100
2020	25,470	16,290	41,760
2021	19,315	14,880	34,195
2022-2026	17,495	51,690	69,185
2027-2031	-	10,950	10,950
	<u>\$ 201,106</u>	<u>\$ 156,837</u>	<u>\$ 357,943</u>

The Code of Iowa requires that principal and interest on general obligation debt be paid from the Debt Service Fund.

The resolutions providing for the issuance of the general obligation capital loan notes and other notes include the following provisions:

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(3) **Bonds Payable and Other Debt - Continued**

- (a) All taxes collected under levy shall be converted into a special fund in the Debt Service Fund.
- (b) Fund monies are to be used for payment of principal and interest of the capital loan notes only.
- (c) All proceeds are to be invested in either direct obligations of the U.S. Government or deposited in banks which are members of the FDIC in FDIC insured accounts.
- (d) No use of capital loan note proceeds is allowed which will cause them to be classified as arbitrage bonds or notes.
- (e) Project has not been and is not expected to be sold or disposed of prior to capital loan note maturity.
- (f) Tax levies of adequate amount are ordered for capital loan note repayments.

Other Debt

On June 10, 1997, the City entered into a note agreement with a financial institution for a State Revolving Corporate Purpose Loan for additional financing of construction of the sludge lagoon and wastewater treatment plant improvements. The total loan award was for \$2,383,000. The balance at June 30, 2016 is \$176,000. The loan bears interest at 1.75% and interest payments are due June 1 and December 1. Principal payments are due June 1.

On March 20, 1998, the City entered into a note agreement with a financial institution for a State Revolving Funds Loan for additional financing of construction of wastewater treatment plant improvements. The total loan award was for \$827,000. The balance at June 30, 2016 is \$117,000. The loan bears interest at 1.75% and interest payments are due June 1 and December 1. Principal payments are due June 1.

On September 30, 2009, the City entered into a note agreement with a financial institution for a State Revolving Funds Loan for additional financing of construction of sanitary sewer line improvements. The total loan award was for \$945,000. The balance at June 30, 2016 is \$675,000. The loan bears interest at 3% and interest payments are due June 1 and December 1. Principal payments are due June 1.

(4) **Pension and Retirement Benefits**

Iowa Public Employees Retirement System

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(4) Pension and Retirement Benefits - Continued

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(4) Pension and Retirement Benefits - Continued

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 were \$109,685.

Net Pension Liability, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City's liability for its proportionate share of the net pension liability totaled \$845,886. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was .0171215 percent, which was a decrease of 0.0005361 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the City pension expense, deferred outflows and deferred inflows totaled \$73,879, \$167,921 and \$205,645 respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum
Rates of salary increase (effective June 30, 2010)	4.00-17.00%, average, including inflation, rates vary by membership group
Long term investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(4) Pension and Retirement Benefits - Continued

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Plus Fixed Income	28%	2.04%
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/Debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's proportionate share of the net pension liability	\$1,504,081	\$845,886	\$290,352

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Municipal Fire and Police Retirement System of Iowa (MFPRSI)

Plan Description - MFPRSI membership is mandatory for fire fighters and police officers covered by the provisions of Chapter 411 of the Code of Iowa. Employees of the City of Creston are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issues a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, Iowa 50266 or at www.mfprsi.org.

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(4) Pension and Retirement Benefits - Continued

MFPRSI benefits are established under Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (i.e., 22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest, for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66% of the member's average final compensation. Members who perform more than 22 years of service receive an additional 2% of the member's average final compensation for each additional year of service, up to a maximum of 8 years. Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50% surviving spouse benefit.

Active members, at least 55 years of age, with 22 or more years of service have the option to participate in the Deferred Retirement Option Program (DROP). The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4, or 5 year DROP period. When electing to participate in DROP, the member is signing a contract indicating the member will retire at the end of the selected DROP period. During the DROP period, the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.

Disability and Death Benefits - Disability coverage may be either accidental or ordinary. Accidental disability is defined as permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60% of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50% of the member's average final compensation, for those with 5 or more years of service, or the member's service retirement benefit calculation amount, and 25% of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50% of the average final compensation for the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40% of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50% of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(4) Pension and Retirement Benefits - Continued

Benefits are increased annually in accordance with Chapter 411.6 of the Code of Iowa which states a standard formula for the increases.

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

Contributions - Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2016.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1% of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa the employer's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 27.77% for the year ended June 30, 2016.

The City's contributions to MFPRSI for the year ended June 30, 2016 was \$217,942.

If approved by the state legislature, state appropriation may further reduce the employer's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State of Iowa therefore is considered to be a nonemployer contributing entity in accordance with the provisions of the Governmental Accounting Standards Board Statement No. 67 - Financial Reporting for Pension Plans.

There were no state appropriations to MFPRSI during the fiscal year ended June 30, 2016.

Net Pension Liability, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City's liability for its proportionate share of \$1,370,669 for the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all MFRPSI participating employers. At June 30, 2015, the City's proportion was .291747% which was an increase of .003508% from its proportions measured as of June 30, 2014.

For the year ended June 30, 2016, the City pension expense, deferred outflows of resources and deferred inflows totaled \$127,243, \$371,744 and \$375,195 respectively.

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(4) Pension and Retirement Benefits - Continued

Actuarial Assumptions - The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation	3.00%
Salary increases	4.50 to 15.00%, including inflation
Investment rate of return	7.50%, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2002 to June 30, 2012.

Mortality rates were based weighting equal to 1/12 of the 1971 GAM table and 11/12 of the 1994 GAM table with no projection of future mortality improvement.

The long-term expected rate of return on MFPRSI investments was determined using a building-block method in which best-estimate ranges of expected future real rates (i.e., expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Plus Fixed Income	7.0%	3.8%
Emerging Markets Debt	3.0	6.5
Domestic Equities	12.5	6.0
Master Limited Partnerships (MLP)	5.0	8.5
International Equities	<u>12.5</u>	7.0
Core Investments	40.0%	
Tactical Asset Allocation	35.0	6.0
Private Equity	15.0	9.8
Private Non-Core Real Estate	5.0	9.3
Private Core Real Estate	<u>5.0</u>	6.8
Real Estate	10.0	
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flow used to determine the discount rate assumed that contributions will be made at 9.40% of covered payroll and the City contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, the MFPRSI's fiduciary net position was projected to be available to make all projected future benefit payments of current plan

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(4) Pension and Retirement Benefits - Continued

members. Therefore, the long-term expected rate of return on MFPRSI's investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.5%) than the current rate.

	1% Decrease <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
City's proportionate share of the net pension liability	\$2,386,374	\$1,370,668	\$526,735

MFPRSI's Fiduciary Net Position - Detailed information about MFPRSI's fiduciary net position is available in the separately issued MFPRSI financial report which is available on MFPRSI's website at www.mfprsi.org.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. They also accumulate a limited amount of sick leave hours which are available for subsequent use only. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2016, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$154,695
Sick leave	<u>584,931</u>
Total	<u>\$739,626</u>

This liability has been computed based on rates of pay as of June 30, 2016.

(6) Deferred Compensation Plan

The City offers certain employees a deferred compensation plan created in accordance with the provisions of Internal Revenue Code Section 457. The plan, available to the City Manager, allows the employee to defer a portion of his current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency. The City provides neither administrative service to the plan nor investment advice for the plan.

Plan contributions for the year by the City ended June 30, 2016 were \$9,135, and for the year ended June 30, 2015 were \$8,944.

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(7) Other Post-Employment Benefits (OPEB)

The City of Creston offers health insurance coverage to full time employees wishing to voluntarily retire prior to the age of 65 and wish to remain on the City employee health insurance plan. Retirees are able to purchase insurance through the City's plan until Medicare eligibility.

There are 36 active employees for the City, 11 active employees for Waterworks, 2 retired employees and 1 former employee.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City pays 90% of the premium for active employees while the employee is responsible for 10%. Retirees pay their own premiums.

	Plus Plan	Basic Plan	Value Plan
Deductible	\$420/840	\$960/1,920	\$2,000/4,000
Single Coverage	\$616	\$572	\$421
Family Coverage	\$1,404	\$1,316	\$971

For the year ended June 30, 2016 the City contributed \$762,542 to the plan.

(8) Related Party Transactions

The City has title to all the land and buildings used by the Creston City Water Works. The Mayor appoints and the City Council confirms the appointments to the Water Works Board of Trustees.

The Water Works determines fees charged to users and also charges the City for usage. The Water Works collects sewage and garbage fees for the City of Creston. Funds collected are remitted to the City monthly. The City received \$1,295,768 for sewer rental, \$605,882 for garbage collections, \$10,842 for sewer connection charges and \$292 for testing fees from the Water Works for the year ended June 30, 2016. The City paid the Water Works \$7,308 for utilities and \$5,065 for other costs and reimbursements.

The City of Creston and the Creston City Water Works are covered under the same insurance policies. Each year the City pays the total policy premium and the Water Works reimburses the City for its share of the cost. During the year ended June 30, 2016, the Water Works reimbursed the City \$91,923.

Also of June 30, 2016, the Water Works owes the following to the City of Creston:

Sewer rental	\$ 125,190
Garbage collections	54,519
Lab fees	22
	<u>\$ 179,731</u>

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(8) Related Party Transactions - Continued

The City provides health insurance for employees of both the City and the Water Works under its health insurance plan. For the year ended June 30, 2016, the City was reimbursed \$175,521 from the Water Works for claims and premiums paid on behalf of the Water Works employees.

(9) Risk Management

The City of Creston is exposed to various risks of loss related to torts; theft, damage to and destruction of assets, errors and omissions; injuries to employees and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limits. Settled claims from these risks did not exceed commercial insurance coverage in any of the past three fiscal years.

(10) Commitments

Garbage Collection

The City of Creston has renewed its contract for garbage collection for an additional five years beginning July 1, 2016.

Airport Operations

The City has entered into an agreement with a contractor to operate and maintain the Creston Municipal Airport for the fiscal year ending June 30, 2016, for \$32,500. The contractor is responsible for all maintenance, upkeep and repairs of the airport and has the option of operating as a fixed based operator. The City is responsible for providing for utilities for the runway lighting, taxiing, lighted windsock, rotating light beacon, and radio homing beacon and for all parts and repairs necessary for these items. The agreement is an annual agreement and has been renewed until June 30, 2017.

Self-Funded Health Insurance

The City of Creston, Iowa had a self-insured Health Care Plan for City employees accounted for in the employee benefit fund. A fixed monthly fee per participating employee was paid to an insurance administrative company to administer the Plan and evaluate claims. The funds of the City were charged a premium based on a range of rates recommended by the third party administrator. The Plan was terminated on June 30, 2015.

The maximum exposure to the City for claims incurred was limited by the "Stop-loss" feature of the Plan. The maximum exposure for one individual, excluding listed exceptions, in a twelve-month period was \$30,000. The maximum aggregate excess risk insurance was \$1,000,000 per policy period and the maximum specific excess risk insurance per covered person was \$1,970,000 per lifetime.

As of June 30, 2016 the Plan held \$480,134 in cash and investments. The estimate of the claims liability was \$49,239 for June 30, 2016 and \$151,890 for June 30, 2015, and includes claims reported but not settled and those incurred but not reported. Claim payments, net of Stop-loss reimbursements as of June 30, 2016 and 2015 were \$328,257 and \$856,305, respectively. The City records the cost of these claims when paid; therefore, the cost of claims incurred but unpaid have not been recorded in the financial statements. Claims paid during the year ended June 30, 2016 was \$216,201.

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(11) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
General	Special revenue:	
	Urban Renewal Tax Increment	\$ 10,000
	Local Option Sales Tax	75,639
	Enterprise:	
	Sewer	201,907
		<u>287,546</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	574,838
	Local Option Sales Tax	39,015
	Enterprise:	
	Sewer	294,510
		<u>908,363</u>
Special Revenue:		
McKinley Park	General	<u>5,500</u>
Road Use Tax	General	<u>514</u>
Employee Benefit Tax	Special Revenue:	
	Local Option Sales Tax	<u>260,416</u>
Urban Renewal Tax Increment	Enterprise:	
	Sewer	<u>21,027</u>
Capital Projects	Special Revenue:	
	Local Option Sales Tax	<u>64,677</u>
Enterprise Sewer	Special Revenue:	
	Urban Renewal Tax Increment	100,000
	Local Option Sales Tax	106,359
		<u>206,359</u>
Total		<u>\$ 1,754,402</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF CRESTON

Notes to Financial Statements - Continued

June 30, 2016

(12) Operating Lease

The City has entered into operating leases for a copier, phone system and postage meter. The leases are for 60 months, respectively, beginning on June 8, 2016, June 22, 2016 and August 7, 2013, respectively. Minimum future lease payments are as follows:

Year ending June 30,	
2017	\$ 5,250
2018	5,250
2019	4,836
2020	4,422
2021	4,054

(13) Development Agreements

The City has entered into development agreements for urban renewal projects. These agreements call for the City to make economic development tax rebate payments each year out of incremental taxes received by the City. No payments were made during the year ended June 30, 2016 under these agreements. Additional amounts due on future years on development agreements were \$1,030,000.

(14) Construction Contracts

The City has entered into various construction contracts totaling approximately \$2,592,100. The unpaid contract balances as of June 30, 2016 totaled approximately \$2,029,400 which will be paid as work on the projects progresses.

(15) Subsequent Events

Management has evaluated subsequent events through September 20, 2016, the date on which the financial statements were available to be issued.

The City issued \$830,000 of General Obligation Refunding Capital Loan Notes to refund the City's General Obligation Capital Loan Notes, Series 2010 and \$1,065,000 of taxable General Obligation Urban Renewal Bond on August 1, 2016 to pay costs of aiding in the planning, undertaking and carrying out of urban renewal projects.

The City authorized to enter into a lease purchase agreement for the purchase of a dump truck with snow plow not to exceed \$140,000.

(16) New Accounting Pronouncement

The City of Creston adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

CITY OF CRESTON

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds, Proprietary Fund and Component Unit Other Information Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Fund Actual	Component Unit Actual	Less Funds not Required to Be Budgeted
Receipts:				
Property tax	\$ 3,380,911	\$ -	\$ -	\$ -
Other city tax	1,039,566	-	-	-
Licenses and permits	44,719	-	-	-
Uses of money and property	102,532	-	13,104	-
Intergovernmental	1,506,249	227,136	-	-
Charges for service	865,164	1,354,371	4,324,211	1,944,951
Special assessments	6,954	-	-	-
Miscellaneous	608,519	6,391	119,483	-
Total receipts	7,554,614	1,587,898	4,456,798	1,944,951
Disbursements:				
Public safety	1,606,192	-	-	-
Public works	1,675,071	-	-	-
Culture and recreation	696,820	-	-	-
Community and economic development	31,617	-	-	-
General government	1,860,501	-	-	-
Debt service	908,363	-	-	-
Capital projects	104,764	-	-	-
Business type activities	-	1,088,766	4,410,989	1,901,650
Total disbursements	6,883,328	1,088,766	4,410,989	1,901,650
Excess (deficiency) of receipts over (under) disbursements	671,286	499,132	45,809	43,301
Other financing sources (uses), net	328,300	(311,085)	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	999,586	188,047	45,809	43,301
Balances beginning of year	7,004,086	1,655,593	1,567,167	-
Balances end of year	\$ 8,003,672	\$ 1,843,640	\$ 1,612,976	\$ 43,301

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
	Original	Final	
\$ 3,380,911	\$ 3,043,807	\$ 3,043,807	\$ 337,104
1,039,566	1,020,917	1,090,917	(51,351)
44,719	42,900	42,900	1,819
115,636	77,450	77,450	38,186
1,733,385	1,368,156	1,619,989	113,396
4,598,795	5,865,234	5,783,724	(1,184,929)
6,954	2,500	2,500	4,454
734,393	208,200	528,447	205,946
11,654,359	11,629,164	12,189,734	(535,375)
1,606,192	1,572,710	1,640,210	34,018
1,675,071	1,823,069	1,784,069	108,998
696,820	890,064	922,064	225,244
31,617	22,460	31,660	43
1,860,501	1,995,265	1,959,285	98,784
908,363	908,363	908,363	-
104,764	425,000	200,000	95,236
3,598,105	4,043,933	4,514,256	916,151
10,481,433	11,680,864	11,959,907	1,478,474
1,172,926	(51,700)	229,827	943,099
17,215	-	-	17,215
1,190,141	(51,700)	229,827	960,314
10,226,846	8,876,038	8,876,038	1,350,808
<u>\$11,416,987</u>	<u>\$ 8,824,338</u>	<u>\$ 9,105,865</u>	<u>\$ 2,311,122</u>

CITY OF CRESTON

Notes To Other Information - Budgetary Reporting

June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds including the discretely presented component unit and excluding the Fiduciary Fund. However, the sewer fees collected by the Creston City Water Works and remitted to the City of Creston have been deducted in the column "Less Funds not Required to be Budgeted" since these are intra agency transactions not required to be budgeted. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, the Permanent Funds and the Enterprise Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$279,043. The budget amendment is reflected in the final budgeted amounts.

CITY OF CRESTON

Schedule of the City's Proportionate Share of the Net Pension Liability For the Last Two Fiscal Years (In Thousands)

Other Information

Iowa Public Employees' Retirement System

	<u>2016</u>	<u>2015</u>
City of Creston's proportion of the net pension liability	.0171215%	.0176576%
City of Creston's proportionate share of the net pension liability	\$ 846	\$ 700
City of Creston's covered-employee payroll	\$ 1,222	\$ 1,209
City of Creston's proportionate share of the net pension liability as a percentage of its covered-employee payroll	69.23%	57.90%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

Municipal Fire and Police Retirement System of Iowa

	<u>2016</u>	<u>2015</u>
City of Creston's proportion of the net pension liability	.291747%	.288239%
City of Creston's proportionate share of the net pension liability	\$ 1,371	\$ 1,045
City of Creston's covered-employee payroll	\$ 765	\$ 736
City of Creston's proportionate share of the net pension liability as a percentage of its covered-employee payroll	179.15%	141.95%
MFPRSI's net position as a percentage of the total pension liability	83.04%	86.27%

* In accordance with GASB Statement No. 68 the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

See accompanying independent auditor's report.

CITY OF CRESTON

Schedule of City Contributions

For the Last 10 Fiscal Years
(In Thousands)

Other Information

Iowa Public Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 110	109	108	99
Contributions in relation to the statutorily required contribution	<u>(110)</u>	<u>(109)</u>	<u>(108)</u>	<u>(99)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City of Creston's covered-employee payroll	\$ 1,223	1,217	1,209	1,142
Contributions as a percentage of covered-employee payroll	8.99%	8.96%	8.93%	8.67%

Municipal Fire and Police Retirement System of Iowa

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 218	233	222	194
Contributions in relation to the statutorily required contribution	<u>(218)</u>	<u>(233)</u>	<u>(222)</u>	<u>(194)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City of Creston's covered-employee payroll	\$ 785	765	736	741
Contributions as a percentage of covered-employee payroll	27.77%	30.41%	30.12%	26.12%

See accompanying independent auditor's report.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
91	78	72	67	59	55
<u>(91)</u>	<u>(78)</u>	<u>(72)</u>	<u>(67)</u>	<u>(59)</u>	<u>(55)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1,128	1,122	1,083	1,055	975	957
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
182	129	107	115	152	160
<u>(182)</u>	<u>(129)</u>	<u>(107)</u>	<u>(115)</u>	<u>(152)</u>	<u>(160)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
733	650	631	613	595	578
24.76%	19.90%	17.00%	18.75%	25.48%	27.75%

CITY OF CRESTON

Notes to Other Information - Pension Liability

Year ended June 30, 2016

Iowa Public Employee's Retirement System

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual contribution rate.

Municipal Fire and Police Retirement System of Iowa

Changes of benefit terms:

There are no significant changes of benefit terms.

CITY OF CRESTON

Notes to Other Information - Pension Liability - Continued

Year ended June 30, 2016

Municipal Fire and Police Retirement System of Iowa - Continued

Changes of assumptions:

Effective July 1, 2014, two additional steps were taken to phase in the 1994 Group Annuity Mortality Table for post-retirement mortality. The two additional steps result in a weighting of 2/12 of 1971 Group Annuity Mortality Table and 10/12 of the 1994 Group Annuity Mortality Table.

City of Creston

Supplementary Information

CITY OF CRESTON

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2016

	Special Revenue			
	Police Forfeiture	Police and Fire Retirement	Library	McKinley Park
Receipts:				
Property tax	\$ -	\$ 221,434	\$ -	\$ -
Use of money and property	-	-	4,226	399
Intergovernmental	-	-	-	4,425
Miscellaneous	50	-	32,410	66,716
Total receipts	50	221,434	36,636	71,540
Disbursements:				
Operating:				
Public safety	698	217,942	-	-
Culture and recreation	-	-	92,130	99,504
Capital projects	-	-	-	-
Total disbursements	698	217,942	92,130	99,504
Excess (deficiency) of receipts over (under) disbursements	(648)	3,492	(55,494)	(27,964)
Other financing sources:				
Transfers in	-	-	-	5,500
Total other financing sources	-	-	-	5,500
Change in cash balances	(648)	3,492	(55,494)	(22,464)
Cash balances beginning of year	5,856	31,221	340,452	220,019
Cash balances end of year	\$ 5,208	\$ 34,713	\$ 284,958	\$ 197,555
Cash Basis Fund Balances				
Nonspendable:				
Cemetery perpetual care	-	-	-	-
Cemetery perpetual decoration	-	-	-	-
Restricted for:				
Other purposes	\$ 5,208	\$ 34,713	\$ 284,958	\$ 197,555
Total cash basis fund balances	\$ 5,208	\$ 34,713	\$ 284,958	\$ 197,555

See accompanying independent auditor's reports.

Capital Projects	Permanent		Total
	Cemetery Perpetual Care	Cemetery Perpetual Decoration	
\$ -	\$ -	\$ -	\$ 221,434
-	-	-	4,625
78,143	-	-	82,568
-	2,465	-	101,641
78,143	2,465	-	410,268
-	-	-	218,640
-	-	-	191,634
104,764	-	-	104,764
104,764	-	-	515,038
(26,621)	2,465	-	(104,770)
64,677	-	-	70,177
64,677	-	-	70,177
38,056	2,465	-	(34,593)
12,027	238,958	23,613	872,146
\$ 50,083	\$ 241,423	\$ 23,613	\$ 837,553
\$ -	\$ 241,423	\$ -	\$ 241,423
-	-	23,613	23,613
50,083	-	-	572,517
\$ 50,083	\$ 241,423	\$ 23,613	\$ 837,553

CITY OF CRESTON

Schedule of Indebtedness

Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
General corporate purpose - Series 2010	Jul 22, 2010	3.60-3.80%	\$ 1,280,000
General corporate purpose - Series 2012A	Apr 24, 2012	1.20-2.30	1,720,000
General corporate purpose - Series 2012B	Apr 24, 2012	1.20-1.60	1,815,000
General obligation urban renewal - Series 2016B	Aug 1, 2016	2.0-3.20	1,065,000
Total			
Other debt:			
State Revolving Funds Loan	Jun 10, 1997	1.75%	\$2,383,000
State Revolving Funds Loan	Mar 20, 1998	1.75	827,000
State Revolving Funds Loan	Sep 30, 2009	3.00	945,000
Total			

* Advance on August 1, 2016 issue

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 915,000	\$ -	\$ 100,000	\$ 815,000	\$ 32,713	\$ -
1,160,000	-	195,000	965,000	17,720	-
1,040,000	-	255,000	785,000	13,420	-
-	10,900 *	-	10,900	-	-
<u>\$ 3,115,000</u>	<u>\$ 10,900</u>	<u>\$ 550,000</u>	<u>\$2,575,900</u>	<u>\$ 63,853</u>	<u>\$ -</u>
\$ 344,000	\$ -	\$ 168,000	\$ 176,000	\$ 6,020	\$ -
172,000	-	55,000	117,000	3,010	-
716,000	-	41,000	675,000	21,480	-
<u>\$ 1,232,000</u>	<u>\$ -</u>	<u>\$ 264,000</u>	<u>\$ 968,000</u>	<u>\$ 30,510</u>	<u>\$ -</u>

CITY OF CRESTON

Long Term Debt Maturities

June 30, 2016

Year Ending June 30,	General Obligation Capital Loan Notes					
	General Purpose Series 2010		General Purpose Series 2012A		General Purpose Series 2012B	
	Issued July 22, 2010		Issued April 24, 2012		Issued April 24, 2012	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2017	3.60%	\$ 105,000	1.20%	\$ 195,000	1.20%	\$ 260,000
2018	3.60	110,000	1.35	195,000	1.35	260,000
2019	3.30	110,000	1.60	195,000	1.60	265,000
2020	3.45	115,000	1.75	125,000	-	-
2021	3.55	120,000	2.00	125,000	-	-
2022	3.70	125,000	2.30	130,000	-	-
2023	3.80	<u>130,000</u>	-	<u>-</u>	-	<u>-</u>
Total		<u>\$ 815,000</u>		<u>\$ 965,000</u>		<u>\$ 785,000</u>

Advance on 2016B issue

See accompanying independent auditor's report.

<u>Total General Obligation Notes</u>	
\$	560,000
	565,000
	570,000
	240,000
	245,000
	255,000
	<u>130,000</u>
\$	2,565,000
	<u>10,900</u>
\$	<u><u>2,575,900</u></u>

CITY OF CRESTON

Long Term Debt Maturities - Continued

June 30, 2016

Year Ending June 30,	Other Debt						Total Other Debt
	State Revolving Funds Loan		State Revolving Corporate Purpose Loan		State Revolving Funds Loan		
	Dated March 20, 1998		Dated June 10, 1997		Dated September 30, 2009		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2017	1.75%	\$ 57,000	1.75%	\$ 176,000	3.00%	\$ 43,000	\$ 276,000
2018	1.75	60,000	-	-	3.00	44,000	104,000
2019	-	-	-	-	3.00	45,000	45,000
2020	-	-	-	-	3.00	47,000	47,000
2021	-	-	-	-	3.00	48,000	48,000
2022	-	-	-	-	3.00	50,000	50,000
2023	-	-	-	-	3.00	52,000	52,000
2024	-	-	-	-	3.00	53,000	53,000
2025	-	-	-	-	3.00	55,000	55,000
2026	-	-	-	-	3.00	57,000	57,000
2027	-	-	-	-	3.00	59,000	59,000
2028	-	-	-	-	3.00	60,000	60,000
2029	-	\$ -	-	-	3.00	62,000	62,000
Total		\$ 117,000		\$ 176,000		\$ 675,000	\$ 968,000

See accompanying independent auditor's report.

City of Creston

CITY OF CRESTON

Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds

For the Last Ten Years

	Years ended June 30,				
	2016	2015	2014	2013	2012
Receipts:					
Property tax	\$ 2,683,483	\$ 2,625,395	\$ 2,369,974	\$ 2,444,298	\$ 2,357,629
Tax increment financing	697,428	684,931	725,435	662,093	845,542
Other city tax	1,039,566	1,179,121	1,009,722	1,023,738	1,054,234
Licenses and permits	44,719	50,753	48,767	82,412	33,316
Use of money and property	102,532	102,883	89,929	151,238	159,502
Intergovernmental	1,506,249	1,491,859	1,591,093	2,659,081	2,985,951
Charges for service	865,164	884,456	853,882	820,397	860,138
Special assessments	6,954	5,844	5,680	6,833	6,560
Miscellaneous	608,519	558,730	455,242	745,651	1,298,090
Total	<u>\$ 7,554,614</u>	<u>\$ 7,583,972</u>	<u>\$ 7,149,724</u>	<u>\$ 8,595,741</u>	<u>\$ 9,600,962</u>
Disbursements:					
Operating:					
Public safety	\$ 1,606,192	\$ 1,588,711	\$ 1,626,443	\$ 1,511,893	\$ 1,450,238
Public works	1,675,071	1,833,649	1,992,752	2,468,297	2,251,390
Culture and recreation	696,820	802,234	768,301	1,380,459	1,029,200
Community and economic development	31,617	40,517	40,563	39,860	37,103
General government	1,860,501	2,516,571	1,991,061	2,673,211	3,603,438
Debt service	908,363	1,058,825	1,058,729	2,849,030	2,257,597
Capital projects	104,764	19,034	19,191	508,819	-
Total	<u>\$ 6,883,328</u>	<u>\$ 7,859,541</u>	<u>\$ 7,497,040</u>	<u>\$11,431,569</u>	<u>\$10,628,966</u>

See accompanying independent auditor's report.

2011	2010	2009	2008	2007
\$ 2,237,733	\$ 2,206,761	\$ 1,834,171	\$ 1,610,447	\$ 1,751,774
982,107	830,465	570,169	377,466	257,088
967,832	995,380	938,578	930,308	958,901
85,868	45,691	53,262	35,096	84,004
137,851	138,544	220,911	309,648	272,066
1,823,211	1,964,979	1,877,398	1,604,264	1,443,949
784,966	731,480	754,752	728,682	636,366
4,673	6,564	3,202	1,120	1,123
869,589	402,807	574,130	405,027	529,052
<u>\$ 7,893,830</u>	<u>\$ 7,322,671</u>	<u>\$ 6,826,573</u>	<u>\$ 6,002,058</u>	<u>\$ 5,934,323</u>
\$ 1,414,502	\$ 1,291,228	\$ 1,935,678	\$ 1,369,057	\$ 1,329,216
2,995,965	1,606,899	1,710,960	1,550,531	1,424,508
697,349	579,237	709,738	1,055,408	574,424
34,537	34,522	45,807	29,577	22,051
1,906,869	2,288,799	1,609,437	1,818,139	1,525,619
1,070,878	1,088,399	1,060,991	1,137,048	748,852
406,828	118,361	12,676	39,328	7,016
<u>\$ 8,526,928</u>	<u>\$ 7,007,445</u>	<u>\$ 7,085,287</u>	<u>\$ 6,999,088</u>	<u>\$ 5,631,686</u>

City of Creston



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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Creston, Iowa as of and for the year ended June 30, 2016, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 20, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Creston's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Creston's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Creston's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the city's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-16 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Creston's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Creston's Responses to the Findings

City of Creston's response to findings identified in our audit is described in the accompanying Schedule of Findings. City of Creston's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the city's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Creston during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Martens & Company, CPA, LLP

West Des Moines, Iowa
September 20, 2016

CITY OF CRESTON

Schedule of Findings

Year ended June 30, 2016

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- II-A-16 Segregation of Duties - A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the City.

Recommendation - We realize that it may not be economically feasible for the City of Creston to employ additional personnel for the sole purpose of segregating duties, however, we feel it is our professional responsibility to bring the control deficiency to your attention. We would recommend that the Council be aware of the lack of segregation of duties and that they act as an oversight group to the City finance office.

Response and Corrective Action Planned - The City of Creston Finance Office will segregate duties to the extent possible with the current number of employees. Additional review of the financial information will be performed by the City Council to ensure transactions and duties are being performed in accordance with the procedures established by the City Council.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF CRESTON

Schedule of Findings - Continued

Year ended June 30, 2016

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-16 Certified Budget - Disbursements during the year ended June 30, 2016 did not exceed amounts budgeted.
- III-B-16 Questionable Disbursements - During the audit, we noted no disbursements for parties, banquets or other entertainment for employees or Council members that we believe may constitute an unlawful expenditure of public funds as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-16 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials and/or employees were noted.
- III-D-16 Business Transactions - No business transactions between the City and City officials or employees were noted.
- III-E-16 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-16 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-16 Revenue Bonds and Notes - The City does not have revenue bonds, only general obligation loan notes. No instances of non-compliance with the notes were noted.
- III-H-16 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- III-I-16 Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.